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MEMORANDUM

~~TOP SECRET~~

THE WHITE HOUSE

WASHINGTON

~~TOP SECRET/SENSITIVE~~

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6/4 recomp J-6
8/2/77

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MEMORANDUM FCR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI

SUBJECT: Nuclear MUF

A review, as directed by you on our Weekly Report,
ERDA's long-planned release of U.S. MUF (Material Unaccounted
For) data will take place on Thursday (August 4). As I mentioned to
you in a recent Weekly Alert, the public release will undoubtedly
focus intense press and Congressional attention on the missing
material from the NUMEC plant in Apollo, Pennsylvania.

At your direction I have been thoroughly briefed by ERDA, FBI and
CIA. The essential conclusions are these:

- In the 1950s and '60s, the AEC did not require its licensees to make annual physical inventories of their special nuclear material. This lead to the practice of a plant's borrowing on a subsequent contract in order to cover operational losses (the major contributor to MUF) in a current contract. The NUMEC plant was particularly bad in this respect. No inventory was performed between 1957 and 1965. In mid 1965, the lack of an immediate subsequent contract forced NUMEC to do a material accounting which revealed that 170 kg of highly enriched uranium [redacted] was missing.
- Upon receiving this accounting, the AEC immediately began a long series of investigations which continued through 1969, and which ultimately concluded that all but 56 kg of the missing material could be physically accounted for. ERDA believes now (but has no evidence) that even this remaining 56 kg can be accounted for by operational losses, but this will be a very hotly contested conclusion. The ERDA report also reaches a very carefully guarded conclusion that no evidence of theft of significant amounts of material has been found. The key paragraph is attached at Tab A.
- The FBI has undertaken two lengthy investigations of this case. The first, beginning in 1965, looked at the question of Shapiro's (the President of NUMEC) relationship to the Israeli Government.

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It concluded that Shapiro did indeed have frequent contacts with Israeli officials here, particularly the Science Attaché who was thought to be an intelligence officer. They also discovered that Shapiro got VIP treatment on trips to Israel for which there was no obvious explanation. This is the essential sum of their findings. When these results were transmitted to Helms, then head of the CIA (at whose request the investigation had been undertaken), he responded with a series of letters to Hoover urging that the FBI take additional steps, including wiretapping and surveillance of Shapiro. Hoover refused.

- The AEC, at the direction of Attorney General Mitchell, undertook its own investigation leading up to a full commission interview of Shapiro in 1969. Strangely, all that Shapiro was asked in that interview was whether he had ever divulged any classified information and not whether he had participated in a diversion of material. The AEC investigation was discontinued in September 1969.

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[redacted] Not surprisingly, Baker went to President Ford who then ordered the Attorney General to undertake an immediate investigation. This time the FBI mandate covered two questions: was there a diversion, and was there a coverup of a diversion. An intensive study, involving hundreds of interviews, a full-time team of 6 senior agents, and millions of dollars was undertaken. It was concluded one week ago. The investigation was unable to uncover any evidence of a theft although the interviews included many current and former NUMEC employees.

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The conclusion from all this is that while a diversion might have occurred, there is no evidence -- despite an intensive search for some -- to prove that one did. For every piece of evidence that implies one conclusion, there is another piece that argues the opposite. One is pretty much left with making a personal judgment -- based on instinct -- as to whether the diversion did or did not occur. So far as we know however, (and we have made serious effort to discover it) there is nothing to indicate active CIA participation in the alleged theft.

There is a tremendous amount of interest in this issue in Congress, both because of the existing intelligence aspect and because of the implications for U. S. safeguards standards (i. e., that such a thing could have happened over a period of years without being detected).

We face tough sledding in the next few weeks (particularly in view of Cy's Mid-East trip) in trying to keep attention focused on ERDA's technical arguments and, if necessary, on the FBI investigations, and away from the CIA's information. We run an obvious risk in releasing this information since it is quite possible that Congressional investigations and press probings could lead to leaks of the sensitive material. However, with all the public expectation of the ERDA release, and the rumors already floating around, the political costs involved in withholding the release would be unacceptable.

ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED
DATE 10-10-2012 BY SP-1000

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AEC LICENSEES

AEC LICENSEES, PRIOR TO 1968, WERE REQUIRED TO MAINTAIN ACCOUNTING RECORDS, INVENTORIES, REPORT LOSSES OTHER THAN NORMAL OPERATING LOSSES, AND ALLOW THE AEC ACCESS TO THEIR FACILITIES FOR INSPECTION. THEY WERE ALSO REQUIRED TO ADEQUATELY CONTROL ACCESS TO SNM AND SECURE INTERNAL STORAGE AREAS AGAINST UNAUTHORIZED REMOVAL OF SNM. AT THOSE LICENSEES WHICH POSSESSED SIGNIFICANT QUANTITIES OF STRATEGIC SPECIAL NUCLEAR MATERIAL, AEC CARRIED OUT SEPARATELY AND PERIODICALLY ACCOUNTING SYSTEM AND PHYSICAL PROTECTION SURVEYS. IT IS NOT EVIDENT FROM THE RECORDS STILL AVAILABLE THAT THERE WAS NORMALLY A SIMULTANEOUS AUDIT OF ACCOUNTABILITY RECORDS AGAINST A COMPLETE PHYSICAL INVENTORY. NO DIRECT EVIDENCE OF ANY THEFT ATTEMPT WAS REPORTED FROM THESE SURVEYS. THERE WAS ALSO NEVER BEEN ANY DIRECT EVIDENCE OF A BLACK MARKET IN SNM.

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INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL

E.O. 13526, SECTION 5.3(d)(3)

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